



Basis Points – September 15, 2022

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Above the Fold

What Triggered Tuesday's Selloff?

As investors, it's critical that we focus on our longer-term strategies while trying not to get too caught up in the day-to-day oscillations of the stock or bond markets. But even in an increasingly volatile market, 4% to 5% daily selloffs can get one's attention. These occurrences don't necessarily mean we have to respond with a change in our portfolio, but it's good for the psyche to know why it happened. It's also important to remember that today's electronic and algorithmic marketplace may tend to amplify market volatility as opposed to the days when market makers and other human investors were there to moderate price movements. In other words, volatility has become more of the norm, and we don't have to be rattled by it.

The 4.32% drop in the S&P 500 and 5.16% Nasdaq decline on Tuesday were both sparked by a rise in the consumer price index (CPI). Ironically, the report showed a slowing inflation rate, but it was still higher than most expected. The CPI increased 0.1% in August, but the “core” reading, which excludes food and energy, rose 0.6%. Typically, the core is lower than the top line number and if not for falling fuel prices, the readings would have been much worse. Overall, prices are still up 8.3% compared to August 2021. Though the actual results weren’t much higher than economists expected, the data likely solidified the likelihood of a large rate hike come Sept. 21 — and that’s not a good thing for stocks or the economy. What may have added insult to injury was the fact that inflation-adjusted average hourly earnings increased just 0.2% for the month, yet remain down 2.8% from a year ago.

The good news is that yesterday’s producer price index (PPI) reading showed a decline in prices of 0.1% (0.2% at the core), which was in line with expectations. On a year-over-year basis, the index, which is a gauge of wholesale prices, was up 8.7%, the lowest increase since August 2021. After the reports, the CME FedWatch tool now predicts a 70% chance of a 75-basis-point increase in interest rates, and a 30% chance of a 1% jump.

Three Things

Can Recycling Help Temper Battery Prices?

The average cost for an electric vehicle in the U.S. breached \$66,000 in July, up more than 13% year over year. And while states and the federal government are pushing us toward green transportation, something needs to be done about costs. The most expensive single part of an electric vehicle is the battery, with some costing more than \$20,000 to replace. With global supplies limited, there’s a rising tide of battery recycling upstarts, such as Ascend Elements, Li-Cycle Holdings and Redwood Materials, Inc., that are looking to feed the domestic supply chain. The Inflation Reduction Act is spurring the activity as it offers generous tax credits for battery material sourced domestically and/or recycled.

The Credit Card Landscape May Be Changing

Retail juggernauts Target and Walmart, along with 1,600 other merchants across the country, have banded together to urge lawmakers to pass a bipartisan bill [introduced in July](#). The legislation gives retailers and other businesses the right to route credit card payments through networks other than Visa and Mastercard, which dominate the card payment landscape (with 77% combined market share). If enacted, it would direct the Federal Reserve to issue regulations requiring large banks that issue credit cards to enable at least one alternate network. American “swipe fees” are the highest in the world and more than seven times higher than the whole of Europe. In 2021, American merchants and consumers paid roughly \$138 billion in credit card fees.

Rice is the Latest Inflation Victim

Due to domestic supply shortages and inflation, India has banned the exports of broken rice and imposed a 20% export duty on brown and white rice. As the world's largest exporter of the popular grain, accounting for more than 40% of the global rice trade, experts are concerned that these restrictions and tariffs are likely to send prices of rice higher around the world, and exports from India are estimated to be cut in half. And as a relatively inexpensive staple food across Asia and developing nations, these actions could make it harder for the poorest citizens of the world to feed themselves and send inflation even higher across Asian countries and elsewhere.

In the Know

A Little More About Rice

Since September is national rice month, we thought we'd share a few facts about America's rice industry. Domestic rice production is substantial, with more than 20 billion pounds of grain grown annually. Much of the farming is focused across six states with more than 5,500 farmers contributing to that effort. America might not be thought of as a huge rice-eating nation, but the average American consumes 27 pounds per year. And if you've had sushi recently, the rice was likely grown here, as 95% of all sushi eaten domestically is made with U.S.-grown rice. We also happen to be the world's fifth largest exporter of tasty, versatile grain.

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